



## Office of Inspector General U.S. Small Business Administration

February 2003 Update

### *Business Loan Programs*

Texas Deli Owner Arrested for Falsely Representing Himself as a U.S. Citizen. The owner of deli and food store in Grand Prairie, Texas, was arrested on February 12, 2003, by the Immigration and Naturalization Service (INS) for **falsely and willfully representing himself to be a citizen of the United States** to SBA in order to obtain an SBA-guaranteed business loan. This investigation is being conducted by SBA/OIG and was initiated based on a referral from INS.

Arizona Assisted Care Living Facility Operator Sentenced for Making False Statements and Theft. An Apache Junction, Arizona, man was sentenced in Federal court in the District of Arizona on February 21, 2003, pursuant to a plea agreement. The defendant was sentenced to 33 months incarceration for one count of **making a false statement** and one count of **theft of Government money**. Additionally, he was sentenced to 10 months incarceration for violation of parole to be served consecutively. Restitution for the SBA violation was set as "up to" \$462,000 to potentially repay the \$462,000 SBA-guaranteed loan he received for an assisted care living facility in Apache Junction, Arizona, by submitting false documentation to a lender. The loan has not yet failed so no guaranty has been paid by SBA and the lender is still attempting a work out of the loan. Upon learning that the Federal Bureau of Investigation (FBI) had an on-going investigation of him for the diversion of Combined Federal Campaign (CFC) funds, SBA/OIG agreed to

conduct a joint investigation of the two matters. The investigation discovered that he diverted funds he collected through his corporate entity for the CFC to his own use and was also indicted and prosecuted in 1997, on a bribery and corruption investigation which involved the former SBA District Director of Phoenix District Office. This investigation was initiated based on a referral from the Arizona District Office.

Georgia Vending Services Company President Indicted for Bankruptcy Fraud and Making False Statements. The president of a vending services company in Atlanta, Georgia, was indicted on February 19, 2002, on nine counts of **bankruptcy fraud** and two counts of **making false statements** to SBA. The false statements were made to induce an SBA-preferred lender and SBA to fund a \$500,000 SBA-guaranteed loan. On February 23, 1998, he signed and submitted an SBA Form 912, Statement of Personal History, with his loan application indicating that he had never been indicted, convicted, or charged with a criminal offense. In reality, he had been charged with four criminal offenses and convicted on three of them. In a bankruptcy petition for his company on May 20, 2000, he indicated that he had no accounts receivable, no equipment, and had not sold any equipment or accounts during the previous 12 months. In fact, while filing bankruptcy, he sold 18 accounts and 57 pieces of vending equipment for \$90,000 to a third party without disclosing the sale to the bankruptcy trustee. He made further statements under oath at an Adversarial hearing supporting his position that he had no accounts

receivable or equipment and had not sold any accounts or equipment during the previous year. This ongoing SBA/OIG investigation was initiated based on a referral from the SBA-preferred lender and continues pending further prosecution.

OIG Issued an Audit Report on Section 504 Loan Program Oversight Process. On February 6, 2003, OIG issued an audit report on the Section 504 loan program oversight process. The audit, part of OIG's effort to evaluate SBA's lender oversight effort, had the objective of determining if SBA's oversight of the Section 504 loan program accomplishes a thorough and reliable evaluation of certified development companies (CDC) to assess financial risk to the portfolio.

Although the Section 504 loan program appears to be operating efficiently, as evidenced by a low default rate, we identified areas of program oversight that could be improved. Specifically:

- SBA oversight did not adequately address financial risk and incomplete annual reports were used in compliance reviews.
- Lender oversight reviews were not tracked to ensure accomplishment once every 3 years.

OIG recommended that the Associate Administrator for Lender Oversight take action to design a separate review guide for the Section 504 loan program, ensure annual reports submitted by CDCs are complete, and implement a review tracking system.

Management agreed to develop a review guide specific to the needs and requirements of the Section 504 loan program. Management indicated that a new tracking system for monitoring oversight reviews has already been implemented. Management proposed that the Office of Lender Oversight, rather than the district offices, ensure that annual reports are complete.

## *Disaster Loan Programs*

Guam Owner of Importing Company Indicted for Mail Fraud, Wire Fraud, and Making Material False Statements. A San Vitores Condos, Tumon, Guam, man was indicted on February 5, 2003, on one count of **mail fraud**, two counts of **wire fraud**, and one count of **making material false statements**. He was the owner of an importing company in Tamuning, Guam. After Typhoon Paka in December 1997, he obtained a \$103,400 SBA disaster loan. The investigation revealed that he, on behalf of the company, submitted two false invoices, with the company's "Borrower's Progress Certification," for work that was not done as claimed. This investigation was initiated based on a referral from the Guam Branch Office and was conducted jointly with FBI.

## *Agency Management*

OIG Issued an Audit Report on Agreed-Upon Procedures Report on SBA's Federal Agencies' Centralized Trial Balance System (FACTS) Data. On February 6, 2003, OIG issued an Audit Report on the Agreed-upon Procedures Report on SBA's Federal Agencies' Centralized Trial Balance System (FACTS) Data. As part of SBA's annual financial statement audit, OIG's independent accountant, Cotton & Company LLP, performed agreed-upon procedures to determine if SBA's summarized FACTS data is consistent with its FY 2002 financial statements. They noted the following findings as a result of conducting the agreed-upon procedures: (1) seventeen rounding differences between amounts in SBA's financial statements and footnotes and amounts presented for FACTS reporting; (2) two insufficient explanations for items designated as differences on the FACTS reporting schedules; (3) two misclassifications of Agency gross costs by budget subfunction on the Statement of Net Cost Account Groupings Worksheet; and (4) two differences between the FACTS notes and amounts included in SBA's audited financial statements and notes due to incorrect data entry and failure to update FACTS

amounts for audit adjustments. The report is intended solely for the use of SBA's Office of the Chief Financial Officer (CFO), the Office of Management and Budget (OMB), the General Accounting Office (GAO), and the U.S. Department of Treasury's Financial Management and Assurance Division and does not contain recommendations.

OIG Issued an Agreed-Upon Procedures Report on SBA's Intragovernmental Activity and Balances Data. On February 6, 2003, OIG issued an Agreed-upon Procedures Report on SBA's Intra-governmental Activity and Balances Data. As part of SBA's annual financial statement audit, OIG's independent accountant, Cotton & Company LLP, performed agreed-upon procedures on SBA's summarized intragovernmental activity and balances data and determined if differences between SBA's data and their trading partners were reconciled and properly accounted for in SBA's FY 2002 financial statements. They noted the following findings as a result of conducting the agreed-upon procedures: (1) five of SBA's fiduciary intragovernmental Standard General Ledger account balances were unreconciled with Federal trading partners; (2) SBA did not reconcile all non-fiduciary transactions with Federal trading partners for items designated as "Yes" on the CFO Representations for Federal Intragovernmental Activity and Balances; and (3) three differences existed between intra-governmental amounts presented in SBA's consolidated financial statements, including footnotes and required supplemental information, and amounts presented in SBA's FACTS sub-mission. The report is intended solely for the use of SBA's Office of the CFO, OMB, GAO, and the U. S. Department of Treasury's Financial Management and Assurance Division and does not contain recommendations.

The activity Update is produced by SBA/OIG,  
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OIG has established an e-mail address ([oig@sba.gov](mailto:oig@sba.gov)) that we encourage the public to use to communicate with our office. We welcome your comments concerning this Update or other OIG publications. To obtain copies of such documents please contact:

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